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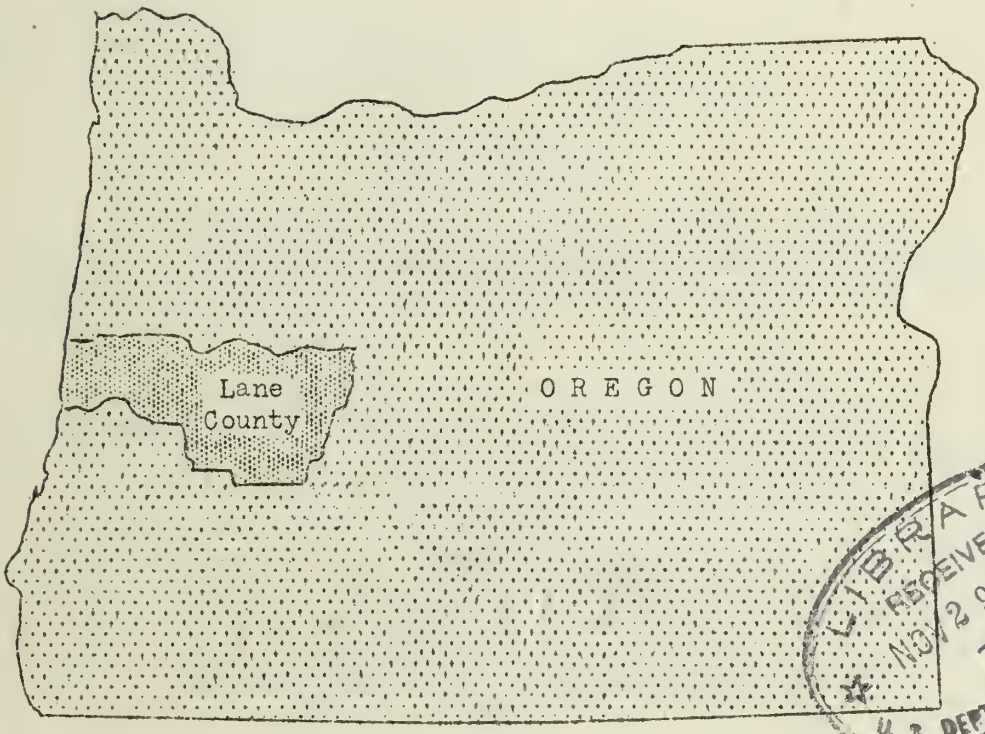
WARTIME LAND MARKET ACTIVITY IN OREGON

By Harvey V. Stonecipher and
Dora Dunn



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By
Harvey V. Stonecipher, Agricultural Economist,
and
Dora Dunn, Statistician[1]

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INTRODUCTORY

The end of World War II marks a point at which an inventory of wartime developments in the farm real estate market during the war years may well be made for it is evident that this war, like the last, has affected the market to a marked degree.

In some ways developments in the land market during this war have been strikingly similar to those of World War I, but in others there are important differences. Farm incomes and land values have risen sharply and nonfarmer investors in farm land have increased. Furthermore, guaranteed prices for farm products have made purchasers of land feel more secure than in the other war in paying high prices. On the other hand, farm-mortgage indebtedness has decreased, and farm-price controls have been more effective than during World War I. The present price of farm land may appear to be justified on the basis of present prices of farm commodities, but it is doubtful that the indebtedness of many farms could be liquidated if substantially lower farm incomes prevailed.

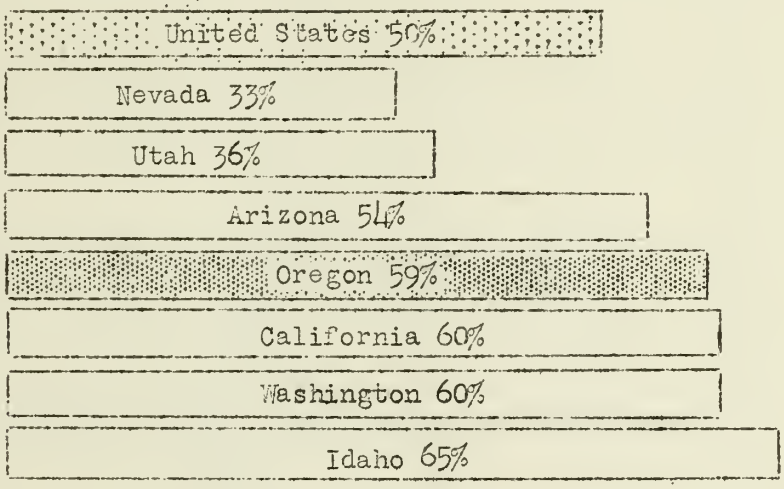
This report presents information on farm-land values in Oregon during World Wars I and II, based on the Bureau of Agricultural Economics index of farm real estate values. It also gives information on farm-land market activity in Lane County from January 1941 to September 1945; this was obtained in a survey of land market activity in selected counties throughout the United States. The data for Lane County are fairly representative of the Willamette Valley but not of the entire State.

1/ Helpful suggestions were received from H. E. Selby and E. F. Landerholm of the Bureau of Agricultural Economics, and E. L. Potter of the Oregon Agricultural Experiment Station.

LAND VALUES, INCOMES, AND INDEBTEDNESS IN OREGON DURING WORLD WAR II

Farm-land values in Oregon were 59 percent higher on March 1, 1945 than on March 1, 1939, according to the Bureau of Agricultural Economics index of farm real estate values.[2] More than one-half of this increase has occurred since March 1943. The increase for Oregon is 6 percent less than for Idaho and 1 percent less than for California or Washington. It is higher than for Utah, Nevada, or Arizona, and for the United States as a whole (fig. 1).

Figure 1.- Percentage increase in value per acre of farm real estate, 1939-45.



Land values in Oregon are 59 percent higher than before World War II.

(Computed from BAE index of farm real estate value.)

Cash receipts from farm marketings rose 168 percent from 1939 to 1944, but increased farm expenses have offset the increased gross income to a considerable extent.[3] Net farm income nationally in 1945 is estimated to be about 5 percent above that of 1944, but the outlook for 1946 is about 15 percent less.[4] Should a downward trend in farm income begin in 1946, those who have bought farms on credit at present prices may find increasing difficulty in liquidating indebtedness or even in maintaining their present equities.

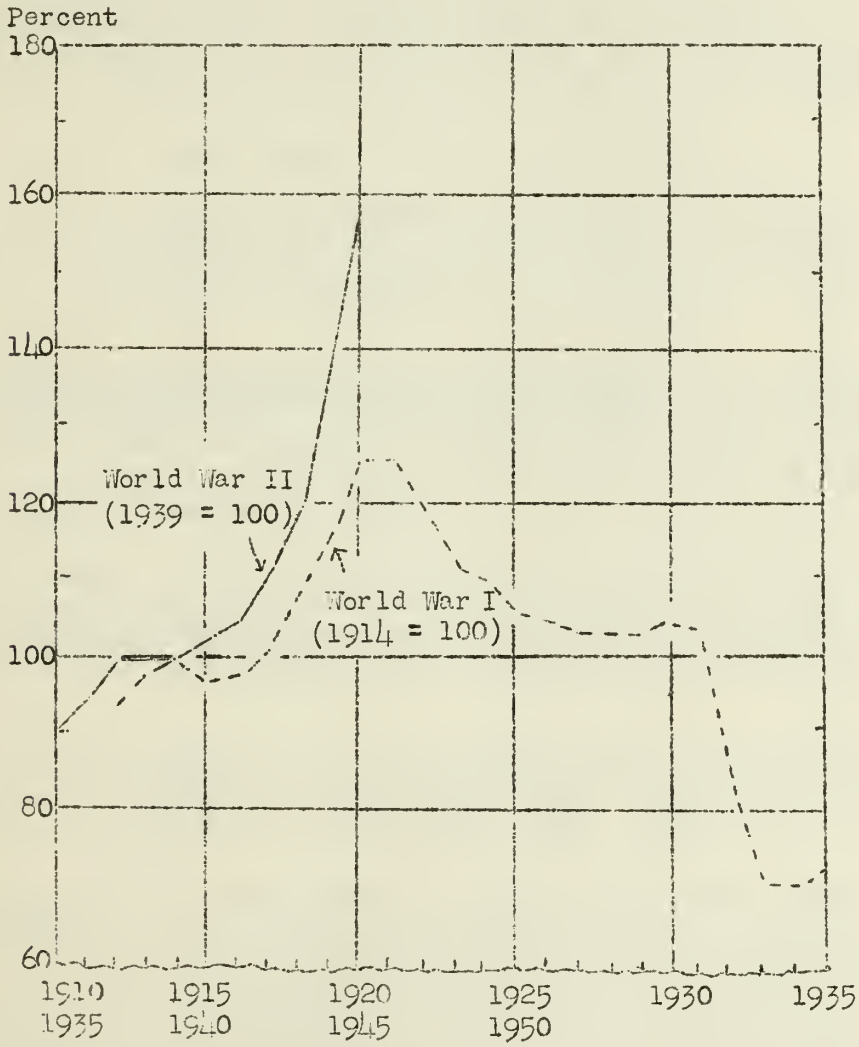
2/ Current Developments in the Farm Real Estate Market, Bureau of Agricultural Economics, March 1945 (processed), and Regan, M. M., et al., The Farm Real Estate Situation, 1943-44, U. S. Dept. of Agr., Cir. 721, January 1945.

3/ Crops and Markets, U. S. Dept. of Agr., February 1942; The Farm Income Situation, Bureau of Agricultural Economics, June 1944; June 1945.

4/ The Farm Income Situation, Bureau of Agricultural Economics, October 1945.

In Oregon, the index of land values has increased more sharply during World War II than it did during World War I (fig. 2). In World War I, using 1914 as the base period, the index of land values rose 26 percent from 1914 to 1920. In the World War II period, using 1939 as the base, the index of land values rose 59 percent. The sharper rate of increase during World War II is partly due to the fact that the level of land prices was lower in 1939 than in 1914. The present level of prices, however, is equal to that of 1920 and 1921.

Figure 2.- Percentage changes in farm land value in Oregon, March 1, World Wars I and II.



The increase in farm land values in Oregon in World War II exceeded that of World War I.

(Computed from BAE index of farm real estate value.)

The increase in land prices during World War I, and the later decline in prices, were less in Oregon and the other Pacific Coast States than in the United States as a whole. During World War II the percentage increase in land prices in the Pacific Coast States has been greater than in the country as a whole. This may mean more severe adjustments in this region if land prices decline in this postwar era.

The mortgage-debt situation is more favorable now than it was following World War I. From 1914 to 1920, farm mortgage[5] indebtedness in Oregon rose from $51,308,000 to $91,951,000 and continued upward to $135,917,000 in 1930.[6] Mortgage indebtedness then began to drop, partly because of foreclosures and forced sales. During World War II, from 1939 to 1945, indebtedness continued to decline, from $92,114,000 to $78,465,000, in spite of increasing land values. The farm-mortgage debt situation, therefore, is somewhat better at present than it was at a comparable time following World War I.

LAND MARKET ACTIVITY IN LANE COUNTY

Data were obtained from county recordings of farm-land transfers and mortgages in Lane County, and from questionnaires sent to buyers and sellers of the land. Only voluntary transfers of agricultural or potentially agricultural land in tracts of 10 acres or more were used.

Volume of transfers and acreage transferred.- The number of transfers of farm land in Lane County rose from 166 in 1941 to 418 in 1944 (table 1). Recordings for the first 9 months of 1945 indicate that the volume of transfers will about equal that of 1944. At least two-thirds of the transfers each year were of cultivated tracts.

The annual rate of turn-over, measured as the number of farms of 10 acres or more in size that were transferred compared with the total number of such farms given in the 1940 Census, averaged 107 per thousand in Lane County compared with 112 per thousand for the 12 sample counties in the 7 Western States.

The total number of acres transferred rose from about 18,000 in 1941 to an estimated 33,500 for the full year 1945. The average number of acres per transfer decreased from 109 in 1941 to 79 in 1945.

Prices.- The average price per acre of cultivated land in Lane County rose from $106 in 1941 to $182 in the first 9 months of 1945, or 72 percent (fig. 3). The price of cut-over pasture land rose from $14 to $25, or 79 percent. There has been considerable activity in the purchase of cut-over land for potential farm development by nonresidents who have been attracted by glowing descriptions of country life in the Willamette Valley and the Oregon Coastal Region. Some of the land purchased in this way is potentially agricultural land but some is unfit for agricultural development. Purchasers of this type of land should examine it carefully in the light of their wants in farm real estate.

5/ "Mortgage" is used in a general sense to cover all secured liens on land.

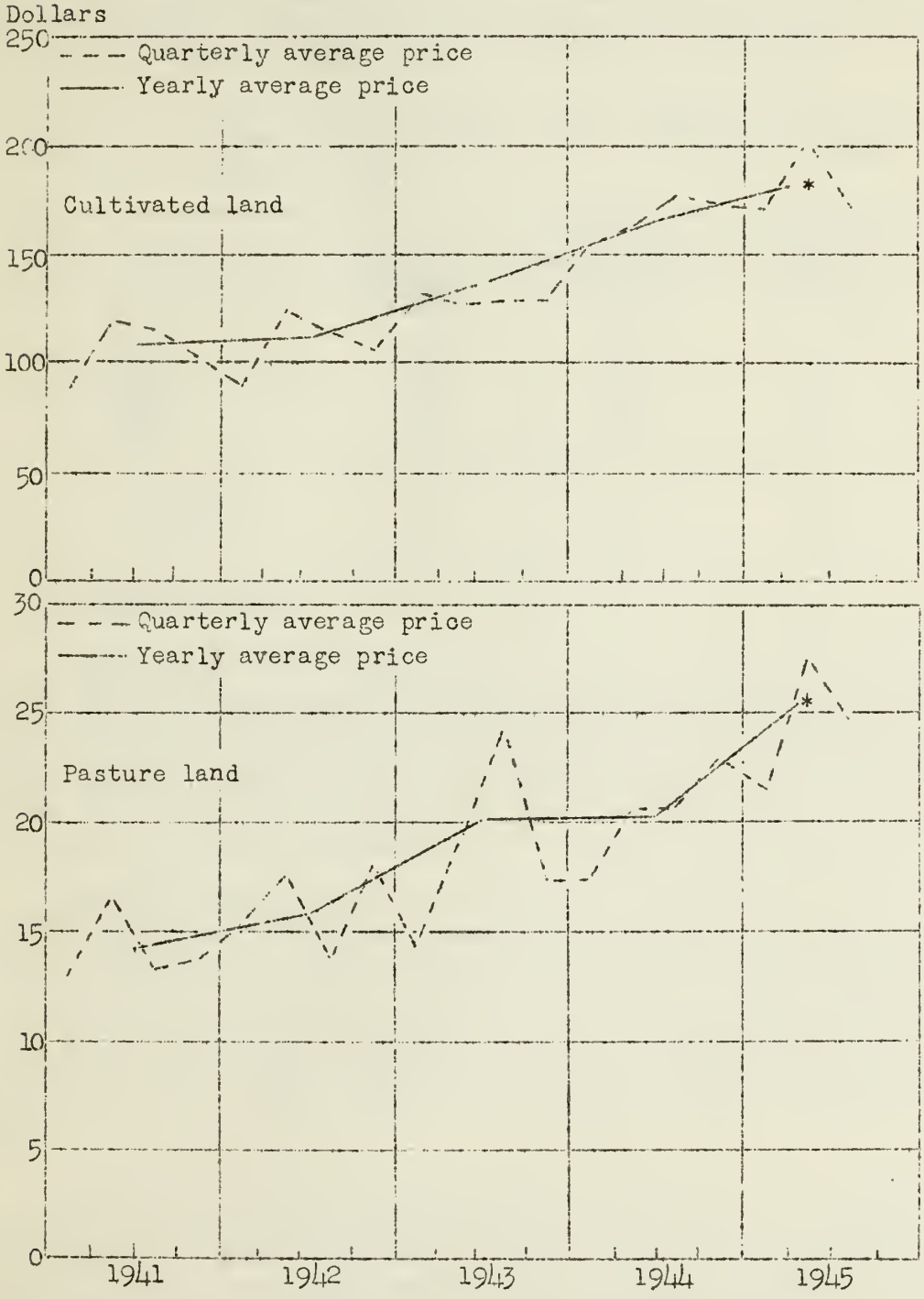
6/ Horton, Donald C., and Umstott, Haven D., Revised Annual Estimates of Farm Mortgage Debt by States, 1930-1943, Bureau of Agricultural Economics, Washington, D. C., April 1944; and Larsen, Harold C., Distribution by Lender Groups of Farm Mortgage Real Estate Holdings, Jan. 1, 1930-45, BAE, Aug. 1945.

Table 1.- Number of farm-land transfers, acreage transferred, and average price per acre, by type of land, Lane County, Oregon, 1941-1944, and first 9 months, 1945.

Year and type of land[1]	Number of transfers	Acres	Average price per acre[2]
			Dollars
1941			
Cultivated	122	8,852	106.10
Pasture	44	9,172	14.34
Total	166	18,024	-
1942			
Cultivated	146	13,559	110.85
Pasture	71	7,033	15.73
Total	217	20,592	-
1943			
Cultivated	312	17,327	136.89
Pasture	81	12,645	20.04
Total	393	29,972	-
1944			
Cultivated	285	17,304	166.47
Pasture	133	15,855	20.31
Total	418	33,159	-
1945[3]			
Cultivated	214	13,961	182.39
Pasture	101	11,054	25.42
Total	315	25,015	-

1/ Individual transfers were classified as to type of land according to the principal use of each transferred tract as a whole.
2/ Obtained by summation of average price of each transfer and division by number of transfers. Each transfer has equal weight in the average.
3/ First 9 months.

Figure 3.- Quarterly and yearly average price of farm real estate per acre, by type of land, Lane County, Oregon, 1941-44, and first 9 months, 1945.



Prices of cultivated land in Lane County have increased 72 percent since 1941; those of pasture land, 79 percent.

*First 9 months.

Resales.- From January 1942 to September 1945, 247 resales of identical tracts of land have been made within 2 years of the time of purchase. Such resales increased from 11 percent of the total transfers in 1942 to 24 percent in 1945, and averaged 18 percent for the 3-3/4 years. The average length of time held between original purchase and resale was 10.2 months and the average increase in gross price was 36 percent (table 2).

Table 2.- Resales of identical tracts of land made within 2 years, Lane County, Oregon, 1942-44, and first 9 months, 1945.

Year	Resales	Average period held	Increase in price
	Number	Months	Percent
1942	23	6.7	47
1943	73	9.2	31
1944	74	10.5	43
1945 1/	77	11.9	34
Total or average	247	10.2	36

1/ First 9 months.

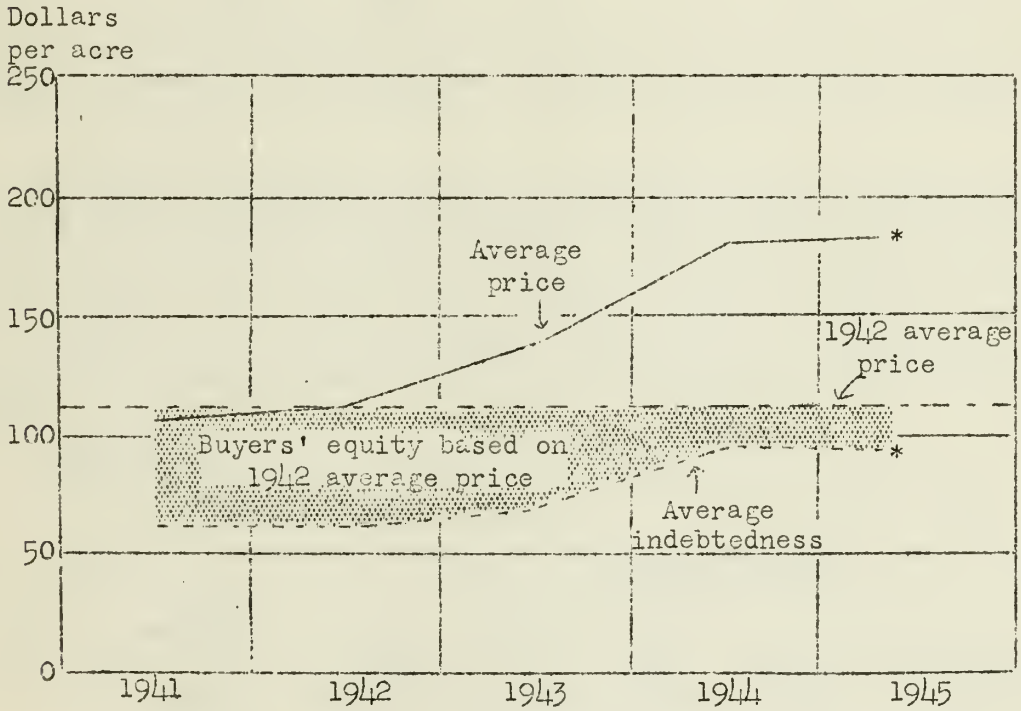
In addition to the resales shown in table 2, some activity has been noted in the purchase of large acreages of cultivated land to be subdivided into small tracts for resale, and in the purchase of unimproved cut-over land which has been resold later for the part-time or subsistence type of farm development. Most of the former kind of resale is for tracts of less than 10 acres which are excluded from the study, and most of the latter is in the form of purchase contracts, many of which are not recorded.

Financing.- Cash transfers accounted for 62 percent of the total transfers and 51 percent of the total consideration in Lane County during the period studied. A larger proportion of the transfers of pasture land was for all cash than of those of cultivated land. Seventy-nine percent of the transfers of pasture land and 62 percent of the consideration involved was for all cash, compared with 55 and 49 percent respectively for transfers of cultivated land. One reason for this was the smaller consideration per transfer for pasture land, only $2,412 as compared with $5,468 for cultivated land.

Encumbered transfers accounted for 38 percent of the total transfers and 49 percent of the total consideration involved in all transfers. Cash down payments on these encumbered transfers averaged 49 percent of the total consideration involved. The average down payment was somewhat higher than the average for the 12 sample areas in the 7 Western States. But in Lane County, during 1942, 1943, 1944, and the first 9 months of 1945, 40 percent of the encumbered transfers carried indebtedness of from 50 to 74 percent of the purchase price and 15 percent were indebted to the extent of 75 percent or more of the purchase price.

It is doubtful that the long-time earning capacity of the land will support present prices of land. If land prices should drop back to the 1942 level, which was considerably above pre-war prices, the average recent buyer of cultivated land on credit would have only a 16 percent equity in his purchase (fig. 4). The average buyer of pasture land on credit would have only 24 percent equity. Under such conditions, these buyers would be hard-pressed to liquidate indebtedness, and many probably would lose their land. Purchasers who paid all cash would be in less danger of losing their land, but probably would be faced with extremely low returns in view of prices paid.

Figure 4.- Buyers' equity in farm real estate relative to 1942 price, encumbered transfers of cultivated land, Lane County, Oregon, 1941-44, and first 9 months, 1945.



The average recent buyer of cultivated land in Lane County would have very little equity left if land prices should return to the 1942 level.

*First 9 months.

Types of lenders.- Individual lenders, a large proportion of whom were sellers taking back mortgages as security for payment, were the chief source of credit in mortgage financed transfers (table 3). New liens held by individual lenders amounted to 79 percent of the total new liens associated with transfers in 1941 and increased to 95 percent in 1945.

Table 3.- Sources of new farm-mortgage credit for financing transfers, Lane County, Oregon, 1941-44, and first 9 months, 1945.

Year	New mortgages	Type of lender: Individual	Commercial bank	Federal Land Bank	Insurance company	Miscellaneous 1/	Total
	Number	Percent	Percent	Percent	Percent	Percent	Percent
1941	42	79	10	7	2	2	100
1942	55	84	2	0	7	7	100
1943	121	84	9	0	1	6	100
1944	95	90	6	3	1	0	100
1945 2/	83	95	2	2	0	1	100

1/ Includes Farm Security Administration and savings and loan companies.
2/ First 9 months.

Existing mortgages on the land transferred that were assumed by the buyers amounted to 43 percent of the total number of mortgages in 1941, but decreased to 31 percent in 1945 (table 4). During 1941 and 1942 the Federal Land Bank ranked first as holders of assumed mortgages, and individuals second. During 1943, 1944, and 1945 individual lenders ranked first and the Federal Land Bank second. Other types of lenders were relatively unimportant as holders of assumed mortgages all during the period studied.

Table 4.- Sources of assumed farm-mortgage financing, Lane County, Oregon, 1941-44, and first 9 months, 1945.

Year	Assumed mortgages	Type of lender: Individual	Commercial bank	Federal Land Bank	Insurance company	Miscellaneous 1/	Total
	Number	Percent	Percent	Percent	Percent	Percent	Percent
1941	32	44	0	53	0	3	100
1942	43	28	2	46	12	12	100
1943	59	52	0	42	3	3	100
1944	40	58	3	32	5	2	100
1945 2/	37	57	3	38	0	2	100

1/ Includes Farm Security Administration and savings and loan companies.
2/ First 9 months.

Types of sellers and buyers.- Active farmers and nonfarmer individuals were about equally important as sellers in the farm real estate market; during the entire period they made 48 percent and 44 percent, respectively, of all sales (table 5). The remainder of the sales were about equally divided between corporations and estates, which averaged 4 percent each.

Table 5.- Percentage of sales and purchases by types of seller and purchaser, Lane County, Oregon, 1941-44, and first 9 months, 1945.

Year	Farmer		Nonfarmer individual		Corporations		Estates	
	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases
	Percent		Percent		Percent		Percent	
1941	40	43	48	53	4	4	8	0
1942	46	38	39	61	8	1	7	0
1943	48	49	40	50	6	1	6	0
1944	51	52	45	47	2	1	2	0
1945 1/	49	40	49	60	1	0	1	0
All years	48	46	44	53	4	1	4	0

1/ First 9 months.

As purchasers, nonfarmer individuals generally outnumbered farmers. Purchases by nonfarmers ranged from 47 to 61 percent of the total purchases each year, averaging 53 percent; while purchases by farmers ranged from 38 to 52 percent, averaging 46 percent. Corporation purchases averaged 1 percent, and there were no purchases by estates.

Of the farmers who sold, 53 percent continued farming either on a reduced scale or by purchasing other land, 14 percent entered nonfarm occupations, 21 percent retired, and 12 percent sold in order to profit from recent purchases. The proportion of farmer-sellers who were selling in order to retire decreased each succeeding year, whereas those selling for profit increased.

Sixty-two percent of the buyers intended to farm the land themselves. This included 96 percent of the farmer buyers and 33 percent of the nonfarmer buyers. Most of the remainder intended to lease, although a few bought with specific intentions of reselling.

IMPLICATIONS OF THE LAND MARKET SITUATION

Conditions are now strikingly similar to those that prevailed in the land market following World War I. Conditions then resulted in farm foreclosures and other forced sales so great in number that they were estimated at one-fourth to one-third of all the farms in the country.

Prospective buyers should consider the long-term earning capacity of the land they plan to buy. The financial success or failure of a prospective buyer depends largely upon the purchase price and the debt that will have to be incurred, which in turn may depend on the decision to buy now or to postpone purchase.

From the seller's viewpoint, good prices can be obtained now, but substantial down payments should be required, or all cash. Elderly farmers who wish to retire and others who are interested in disposing of farm land should consider the advantages of selling now. Farmers who expect to continue farming should weigh any alternative opportunities they might have against attractive offers for their present farms.

Credit agencies and other lenders can help combat inflation by maintaining conservative lending policies, based on the long-time earning capacity of the land. It is conceded that they are hampered in this effort by the willingness of individuals to make loans that are based on market prices.